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BOOK REVIEW ALL YOU NEED TO KNOW ABOUT ETHICS AND FINANCE

An easy-to-read moral compass

This concise guide to current custom and practice in business ethics sums up all the key dilemmas, writes Paul Myners

Morals, thought the Marquis de Sade, are geography misapplied. Ethics are history misapplied. The relationship between business and ethics is now under proper scrutiny again. Adam Smith, John Stuart Mill and J.K. Galbraith addressed business through the ethical environment of their time. The Glass-Steagall Act of 1933 and the Sarbanes-Oxley Act of 2002 both followed periods of commercial malfeasance. Now the general mood has overtaken the regulators: ethical business culture should go beyond mere compliance with law.

There is a growing literature of business ethics based on a litany of unethical behaviour. Avaricious executives from Enron, Tyco, Worldcom, Parmalat and Shell make up a medieval morality pageant of case studies on the business school stage. But business ethics is not yet sufficiently integrated into the business school curriculum; and business theory had excised ethics from its calculations. Business ethics informs debates on corporate governance, corporate social responsibility and socially responsible investment.

Aristotle noted in his own *Ethics* that the student should have some knowledge of everyday life. This is exactly the broad, inclusive approach of Avinash Persaud and FT columnist John Plender in their excellent concise guide to the shifting vagaries of the business ethics scene. They cover issues from

ethical action to whistle-blowing, from the roles of independent directors to auditors, bankers, advisers and regulators; there is discussion on fiduciaries, mis-selling, profit smoothing, tax avoidance and speculation.

The book is clearest about why ethical concerns should now be so pressing, all the more welcome because technology and work networks have increased both the speed and the scope of ethical (or unethical) behaviour. The culture of temptation grew up with the emphasis on shareholder value and executive incentives in the 1990s; this tended to remove moral concerns in favour of performance; accountants and lawyers, under pressure to produce fees, provided less robust checks and balances. The stock-option culture had a huge impact on business ethics and beyond: Bob Monks, a US shareholder activist, called stock options history's greatest non-violent transfer of wealth from one class to another.

The argument starts from the reasonable premise that ethics should operate as a form of informal internal control in corporations: cheaper and more pervasive than compliance, less costly in terms of lost trust and reputation. Business should take place within a moral context: trade is a social act. Moreover, commerce is carried out by individuals with the moral capacity to make ethical or unethical decisions many times in a day's work. The journey of recovery at Marks & Spencer had a strong

ethical element - founded in trust and fairness and rooted in history.

Marvin Bower of McKinsey is rightly held up as an adviser who created an ethically sustainable business by showing employees how to do the right thing decisively and with confidence; this attracted higher quality staff and clients. It is refreshing to see Mr Bower in this context, particularly his idea that business goals are not financial. This contrasts with the dated view of

All You Need to Know about Ethics and Finance

Finding a Moral Compass in Business Today
Avinash D. Persaud and John Plender
Longtail, £19.95

Milton Friedman ("make as much money for... stockholders as possible") and sits more happily beside the lateral approach of Yvon Chouinard at Patagonia ("let my people go... surfing") or the work of ethical commentator Paul Hawken in *The Ecology of Commerce*.

The book offers a "moral compass in business". It is easy to navigate; there are useful chapter summaries, minimal academic apparatus and concluding questions rounding off each chapter that bring practical wisdom to bear on the kinds of ethical dilemma that professionals in finance face. The authors are explicit about the duty of those

who work in the financial community: "We believe that the duty of finance professionals is to take ethical responsibility for actions they are involved with or observe. They cannot devolve that responsibility to the company or its lawyers, managers or advisers."

The book's difficulty is one of scope. This is true of any work on ethics: where to stop? Every time money or information changes hands, there are ethical concerns; the way to make sense of the ethics is to have a general understanding of similar transactions; but the way to understand the transactions is to become technically adroit and specialised. The argument rightly maintains a tension between specific detail in markets and general questions of rectitude: that is exactly what it means to do business today.

The absence of well articulated and generally accepted ethical behaviour will push business into gated communities, under onslaught from those who feel they lose out to the self-interest of those in business. The authors have produced a valuable guide for those who want to play their part in heading off such reactions. Business requires community support to maintain its licence to operate. Actions perceived as wrong or outcomes that appear unfair will see licences revoked.

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